Consolidated Financial Results for the Fiscal Year Ended June 30, 2020 [Japanese GAAP]

August 12, 2020

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Stock exchange listing: Tokyo Stock Exchange
Code number: 5698
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Scheduled date of Annual General Meeting of Shareholders: September 29, 2020
Scheduled date of filing annual securities report: September 29, 2020
Scheduled date of commencing dividend payments: September 30, 2020
Availability of supplementary briefing material on financial results: Available
Schedule of financial results briefing session: Not scheduled (The briefing will be video streamed instead of holding a normal briefing session.)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Fiscal Year Ended June 30, 2020 (July 1, 2019 to June 30, 2020)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2020	33,879	(6.8)	790	(5.9)	934	(18.1)	602	(23.5)
June 30, 2019	36,336	(3.0)	839	(16.2)	1,141	(13.5)	787	(6.4)

(Note) Comprehensive income: Fiscal year ended June 30, 2020: ¥643 million [(15.5) %]
Fiscal year ended June 30, 2019: ¥761 million [(7.9) %]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets	Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
June 30, 2020	41.03	39.25	5.3	4.1	2.3
June 30, 2019	52.96	50.57	7.1	5.5	2.3

(Reference) Share of loss (profit) of entities accounted for using equity method:
Fiscal year ended June 30, 2020: ¥123 million
Fiscal year ended June 30, 2019: ¥246 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2020	25,913	12,012	45.0	791.67
As of June 30, 2019	19,759	11,562	56.7	764.82

(Reference) Equity: As of June 30, 2020: ¥11,654 million
As of June 30, 2019: ¥11,195 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
June 30, 2020	2,632	(1,001)	5,897	10,242
June 30, 2019	(87)	(601)	(1,440)	2,714

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
June 30, 2019	-	0.00	-	16.00	16.00	234	30.2	2.1
June 30, 2020	-	0.00	-	10.00	10.00	147	24.4	1.3
Fiscal year ending June 30, 2021 (Forecast)	-	0.00	-	10.00	10.00		-	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 to June 30, 2021)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	28,860	(14.8)	510	(35.5)	600	(35.8)	410	(31.9)	27.84

*** Notes:**

(1) Changes in significant subsidiaries during the fiscal year ended June 30, 2020 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: No
2) Changes in accounting policies other than 1) above: Yes
3) Changes in accounting estimates: Yes
4) Retrospective restatement: No

* For details, please see "3. Consolidated Financial Statements and Primary Notes (5) Notes to the Consolidated Financial Statements (Changes in Accounting Policies that are Difficult to Distinguish from Changes in Accounting Estimates)" on page 15 of the attached document.

(3) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
June 30, 2020: 15,051,227 shares
June 30, 2019: 15,051,227 shares

2) Total number of treasury shares at the end of the period:
June 30, 2020: 329,326 shares
June 30, 2019: 413,159 shares

3) Average number of shares during the period:
Fiscal year ended June 30, 2020: 14,673,332 shares
Fiscal year ended June 30, 2019: 14,863,826 shares

* These consolidated financial results are outside the scope of audit by certified public accountants or audit firms

* Explanation of the proper use of financial results forecast and other notes

The financial results forecast and other forward-looking statements in this material are based on information currently available to the Company and certain assumptions deemed to be reasonable, and actual results may differ significantly due to various factors. Please see the "Overview of Business Results, etc." from page 2 of the attached document of this material for the conditions for financial and other results, as well as important matters to be aware of when using the financial results forecast.

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1. Overview of Business Results, etc.

(1) Overview of Business Results for the Period under Review

During the fiscal year ended June 30, 2020, the global economy was generally on a downward trend, as the Chinese economy slowed down on the back of prolonged U.S-China trade friction, while the U.S. experienced firm growth particularly in personal consumption. Since the beginning of 2020, the spread of COVID-19 infections has had a large impact on the economies of many countries, significantly restricting the movement of people and goods and economic activities around the world. As a result, global economies have fallen into an unprecedented downturn.

The Japanese economy was also on a gradual recovery trend owing to improvements in the employment and income environments, but has become stagnant in terms of both supply and demand due to the spread of COVID-19.

In the Group's business areas, demand for steel decreased due to economic slowdown caused by COVID-19, in addition to a decrease in external demand reflecting trade friction and other factors, and steel product prices showed signs of weakness. The average ferrous scrap market price (Tokyo Steel (Tahara) Tokkyu Grade Seaborne Price) was ¥22,943 during the fiscal year under review, falling from the average price of ¥33,219 in the same period of the previous fiscal year. Due to a sharp drop in demand after March, the price briefly reached a low of ¥18,500 for the period in May. However, as lower production in automobile and other manufacturing industries led to a decrease in the market circulation of ferrous scrap, causing tight supply and demand in Japan and overseas, the price rose to ¥24,500 at the end of the fiscal year. Regarding prices of nonferrous metals, the prices of copper and aluminum, our main nonferrous items, fell below those seen in the previous year.

Amid this harsh business environment, during the fiscal year ended June 30, 2020, the Group progressed with "further cultivation of existing businesses," "establishment of a new pillar" and "reinforcement of foundation" under our mission statement "Contribute to create a sustainable society," which is set out in the "Sustainability Strategy" formulated by the Group as a five-year long-term strategy in 2018.

Furthermore, in response to the spread of COVID-19, the Group set up a COVID-19 Response Committee to conduct business while implementing infection prevention measures in line with the guidelines of the government and other authorities, placing top priority on the safety and health of our customers, employees, and their families.

As a result, for the fiscal year ended June 30, 2020, net sales were ¥33,879 million (down 6.8% year on year), operating profit was ¥790 million (down 5.9% year on year), ordinary profit was ¥934 million (down 18.1% year on year), and profit attributable to owners of parent was ¥602 million (down 23.5% year on year).

Results by segment are as follows, with net sales shown as inter-segment sales or sales including transfers.

Summary of Business Results by Segment

<Net sales> (Million yen)

	The 10th term (Fiscal year ended June 30, 2019)	The 11th term (Fiscal year ended June 30, 2020)	Increase/decrease ratio
Resource Circulation Business	12,712	10,786	(15.2)%
Global Resource Circulation Business	21,870	20,108	(8.1)%
Used-cars-related Business	6,195	5,683	(8.3)%
Others	382	295	(22.9)%
Adjustment	(4,824)	(2,994)	-
Total	36,336	33,879	(6.8)%

<Segment profit> (Million yen)

	The 10th term (Fiscal year ended June 30, 2019)	The 11th term (Fiscal year ended June 30, 2020)	Increase/decrease ratio
Resource Circulation Business	833	420	(49.6)%
Global Resource Circulation Business	448	600	33.8 %
Used-cars-related Business	18	38	104.1%
Others	38	30	(19.9)%
Adjustment	(197)	(155)	-
Total	1,141	934	(18.1)%

(Note) Segment profit is adjusted with ordinary profit in the consolidated statements of income.

1) Resource Circulation Business

Although the Group faced a harsh environment as ferrous and nonferrous metals scrap prices entered a bear market, with signs of further weakness, and the return of waste to Japan caused increases in waste processing fees at final disposal sites and limitations on acceptance, we had secured a gross profit due to revisions to prices for accepting raw materials in response to processing fee hike at final disposal sites after intermediate processing. However, the impact of COVID-19 began to appear in March. The manufacturing industry deteriorated due to economic slowdown, and the amount of metal scrap and waste generated decreased as construction and demolition work was postponed due to voluntary restraint on business activities. As a result, the handling volume and revenue declined. To offset the decline in revenue, the Group sought to reduce fixed costs, including overhauling our initiative for plastic material recycling that is part of our new business, but these efforts could not reduce costs sufficiently, resulting in a downward pressure on revenues. In addition, expenses were incurred up front dragging down revenue, as a result of aggressive growth investments to strengthen the business foundation, such as securing of personnel for the future and increases in bonuses, as well as the increase in fixed costs related to recycling equipment for our new lithium ion rechargeable batteries business. The Group will continue to strive to increase its handling volume of resources, reduce fixed costs, and establish new businesses.

As a result, net sales in the Resource Circulation Business segment were ¥10,786 million (down 15.2% year on year), while segment profit was ¥420 million (down 49.6% year on year).

2) Global Resource Circulation Business

To expand our overseas business, the Group prepared to build a new organizational structure, recruited personnel, and set up a European representative office. Regarding ferrous scrap and nonferrous metals scrap business, the handling volume and profit increased due to a significant year-on-year increase in the business in Vietnam and the expansion of domestic stockyards. In addition, the sale of the second retired dedicated aircraft of the Japanese government, which had remained as inventory at the end of the previous fiscal year, also contributed to revenue. In the biomass fuel business as one of our new business, the first shipment of palm kernel shells (PKS) from Malaysia to Japan was successfully delivered. The Group will continue to strengthen its structure to respond to market expansion.

As a result, net sales in the Global Resource Circulation Business segment were ¥20,108 million (down 8.1% year on year), while segment profit was ¥600 million (down 33.8% year on year).

3) Used-cars-related Business

An increase in sales of used truck parts for South East Asia, and a recovery mainly in Dubai in the handling volume of logistics agency services, which had been sluggish during the same period of the previous fiscal year, as well as the effects of a reduction in fixed costs due partly to the reduction of yard size for the loading of export cars, all contributed to revenue, despite weakness in demand for used cars in South America, one of our major export destinations. However, the market conditions for used cars and used engines deteriorated after March due to the impact of COVID-19, and our overseas local subsidiaries cut back or suspended their operations owing to

lockdowns and other reasons, leading to a sharp drop in revenue.

As a result, net sales in the Used-cars-related Business segment were ¥5,683 million (down 8.3% year on year), while segment profit was ¥38 million (up 104.1% year on year).

4) Others

The Environment Management Consulting Business remained strong, due mainly to continued orders for CDP responses, evaluation improvement support and other services, as well as other factors including the commencement of new services, such as Task Force on Climate related Financial Disclosures (TCFD) response support. Profit thus increased, despite increased personnel expenses owing to reinforcement of organization.

Revenue for the Welfare Service Business for Persons with Disabilities increased compared to the previous fiscal year, as the total number of users was boosted by the increased recognition of existing offices. Accordingly, the Group succeeded in turning a profit for the full year, despite prior investment in personnel costs for the Type-B Continuous Employment Support Office newly established in Fujinomiya City, Shizuoka Prefecture.

In addition, the solar power plant developer E3 Co., Ltd., all the shares of which the Company transferred on December 28, 2018, was included in the scope of consolidation for the previous fiscal year.

As a result, net sales in Others segment were ¥295 million (down 22.9% year on year), while segment profit was ¥30 million (down 19.9% year on year).

(2) Overview of Financial Position for the Period under Review

Total assets at the end of the fiscal year under review amounted to ¥25,913 million (up ¥6,153 million, or 31.1% from the end of the previous fiscal year). Current assets amounted to ¥16,529 million (up ¥5,377 million, or 48.2% from the end of the previous fiscal year). This was primarily due to an increase of ¥7,528 million in cash and deposits, despite decreases of ¥1,340 million in merchandise and finished goods and ¥449 million in notes and accounts receivable – trade. Non-current assets amounted to ¥9,383 million (up ¥776 million, or 9.0% from the end of the previous fiscal year). This was mainly due to increases of ¥649 million in machinery, equipment and vehicles, ¥199 million in buildings and structures, and ¥166 million in investment securities, despite a decrease of ¥268 million in construction in progress.

Total liabilities at the end of the fiscal year under review amounted to ¥13,900 million (up ¥5,702 million, or 69.6% from the end of the previous fiscal year). Current liabilities amounted to ¥7,499 million (up ¥2,327 million, or 45.0% from the end of the previous fiscal year). This was mainly due to increases of ¥1,660 million in short-term borrowings and ¥1,155 million in current portion of long-term borrowings, despite a decrease of ¥665 million in other current liabilities. Non-current liabilities amounted to ¥6,401 million (up ¥3,375 million, or 111.6% from the end of the previous fiscal year). This was mainly due to an increase of ¥3,353 million in long-term borrowings.

Total net assets at the end of the fiscal year under review amounted to ¥12,012 million (up ¥450 million, or 3.9% from the end of the previous fiscal year). This was mainly due to an increase of ¥367 million in retained earnings and a decrease of ¥55 million in treasury shares.

(3) Overview of Cash Flows for the Period under Review

Cash and cash equivalents at the end of the fiscal year under review increased by ¥7,528 million, or 277.4%, from the end of the previous fiscal year, to ¥10,242 million.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥2,632 million, compared with ¥87 million used in operating activities in the same period of the previous fiscal year. This net cash inflow mainly reflected cash inflows of ¥1,350 million in decrease in inventories, ¥918 million in profit before income taxes, and ¥449 million in decrease in trade receivables, compared with cash outflows of ¥411 million in income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥1,001 million, compared with ¥601 million used in investing activities in the same period of the previous fiscal year. This net cash outflow mainly reflected cash outflows of ¥1,249 million in purchase of property, plant and equipment, compared with cash inflows of ¥237 million in proceeds from national subsidies.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥5,897 million, compared with ¥1,440 million used in financing activities in the same period of the previous fiscal year. This net cash inflow mainly reflected cash inflows of ¥4,995 million in proceeds from long-term borrowings and ¥1,660 million in net increase in short-term borrowings, compared with cash outflows of ¥485 million in repayments of long-term borrowings and ¥234 million in dividends paid.

(4) Future Outlook

Regarding the future outlook, market conditions suddenly worsened as the amount of metal scrap and waste generated decreased due to a drop in domestic and overseas demand in the wake of sharp economic slowdown caused by the spread of COVID-19, and our overseas local subsidiaries in the Used-cars-related Business cut back or suspended their operations owing to lockdowns in their locations and other reasons. Despite some recovery from the sudden deterioration of market conditions, the situation remains severe.

Judging by the information currently available, the Group anticipates that the handling volume will remain at roughly 80% of the previous year's level until the first half of the fiscal year ending June 30, 2021, owing to delays in construction and demolition work and lower demand in response to the spread of COVID-19, and it will gradually recover in the second half of the year. The Group also expects that overseas markets will follow similar trends to the domestic market, except for some Asian countries with minimal impact of COVID-19.

Under these circumstances, the Group will flexibly implement various measures while paying close attention to the impact of the spread of COVID-19, in order to ensure the health and safety of our employees while also maintaining business activities. In addition, taking advantage of this opportunity to further strengthen the business structure, the Group will restructure work, enhance group synergies, promote remote work, advance digitalization, retrain employees, and carry out other activities for structural improvement, aimed at enhancing productivity.

Under our mission statement "Contribute to create a sustainable society," which is set out in the "Sustainability Strategy" formulated by the Group as a five-year long-term strategy in 2018, the Group will also promote its businesses based on priority policies to dramatically raise social credibility, dramatically raise management resource efficiency, and dramatically raise productivity.

The financial results forecasts for the next fiscal year are based on the assumption of ferrous scrap price of ¥20,000 and an average yen exchange rate of ¥105 to the U.S. dollar, with net sales of ¥28,860 million (down 14.8% year on year), operating profit of ¥510 million (down 35.5% year on year), ordinary profit of ¥600 million (down 35.8% year on year), and profit attributable to owners of parent of ¥410 million (down 31.9% year on year).

* The financial results forecasts are based on information available to the Company as of the release of this document and certain assumptions judged to be valid, and actual results may differ significantly due to various factors. Should the need arise to revise the financial results based on a consideration of the timing of the end of COVID-19 and the impact of the risk of a second wave of infections, revisions will be disclosed promptly.

(5) Significant Events regarding Going Concern Assumption

There is no relevant information.

2. Basic Stance Concerning Choice of Accounting Standards

The Group has adopted Japanese GAAP in consideration of the comparability of its consolidated financial statements with domestic industry peers.

Please note that application of IFRS (International Financial Reporting Standards) will be considered, based on various circumstances in Japan and overseas.

3. Consolidated Financial Statements and Primary Notes
(1) Consolidated Balance Sheets

(Thousand yen)

	As of June 30, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	2,855,593	10,383,947
Notes and accounts receivable - trade	2,793,397	2,344,018
Merchandise and finished goods	3,955,709	2,615,544
Work in process	14,598	12,858
Raw materials and supplies	383,977	364,342
Other	1,190,013	861,513
Allowance for doubtful accounts	(40,843)	(52,447)
Total current assets	11,152,446	16,529,776
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,202,152	4,498,846
Accumulated depreciation	(2,512,248)	(2,609,911)
Buildings and structures, net	1,689,904	1,888,935
Machinery, equipment and vehicles	9,383,078	9,582,700
Accumulated depreciation	(7,982,329)	(7,532,687)
Machinery, equipment and vehicles, net	1,400,749	2,050,012
Land	2,507,555	2,517,061
Construction in progress	467,400	199,156
Other	432,968	439,486
Accumulated depreciation	(367,603)	(365,596)
Other, net	65,365	73,889
Total property, plant and equipment	6,130,974	6,729,056
Intangible assets		
Goodwill	22,601	9,686
Other	67,282	60,861
Total intangible assets	89,884	70,547
Investments and other assets		
Investment securities	2,122,992	2,289,265
Investments in capital	9,280	9,280
Deferred tax assets	159,164	193,568
Other	335,820	327,608
Allowance for doubtful accounts	(240,661)	(235,613)
Total investments and other assets	2,386,595	2,584,108
Total non-current assets	8,607,454	9,383,712
Total assets	19,759,900	25,913,489

(Thousand yen)

	As of June 30, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	950,053	1,102,215
Short-term borrowings	1,880,000	3,540,000
Current portion of long-term borrowings	439,561	1,595,158
Lease obligations	51,346	53,722
Income taxes payable	225,458	251,302
Provision for bonuses	60,356	57,328
Other	1,565,323	900,074
Total current liabilities	5,172,098	7,499,801
Non-current liabilities		
Long-term borrowings	2,122,796	5,476,615
Lease obligations	137,711	147,382
Deferred tax liabilities	24,443	–
Deferred tax liabilities for land revaluation	64,282	64,282
Retirement benefit liability	309,763	356,312
Asset retirement obligations	167,073	168,067
Other	199,664	188,363
Total non-current liabilities	3,025,733	6,401,022
Total liabilities	8,197,832	13,900,824
Net assets		
Shareholders’ equity		
Share capital	1,524,830	1,524,830
Capital surplus	1,973,372	1,961,456
Retained earnings	7,941,272	8,309,117
Treasury shares	(273,350)	(217,853)
Total shareholders' equity	11,166,124	11,577,550
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	37,235	85,460
Revaluation reserve for land	8,633	8,633
Foreign currency translation adjustment	(16,547)	(16,819)
Total accumulated other comprehensive income	29,322	77,274
Share acquisition rights	328,125	326,064
Non-controlling interests	38,496	31,775
Total net assets	11,562,068	12,012,664
Total liabilities and net assets	19,759,900	25,913,489

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Thousand yen)

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Net sales	36,336,453	33,879,334
Cost of sales	29,881,663	27,017,544
Gross profit	6,454,789	6,861,790
Selling, general and administrative expenses	5,615,041	6,071,490
Operating profit	839,748	790,299
Non-operating income		
Interest income	4,386	4,581
Dividend income	9,261	3,856
Foreign exchange gains	16,803	–
Share of profit of entities accounted for using equity method	246,951	123,021
Rental income	31,966	31,514
Outsourcing service income	9,538	8,467
Other	34,691	41,156
Total non-operating income	353,598	212,596
Non-operating expenses		
Interest expenses	29,783	19,631
Theft loss	8,446	–
Foreign exchange losses	–	26,883
Commission expenses	5,345	5,455
Depreciation	4,933	4,527
Other	2,929	11,487
Total non-operating expenses	51,438	67,984
Ordinary profit	1,141,907	934,911
Extraordinary income		
Gain on sales of non-current assets	22,306	12,184
Insurance claim income	35,702	91,856
National subsidies	–	237,039
Compensation income	24,376	13,763
Other	5,034	–
Total extraordinary income	87,419	354,843
Extraordinary losses		
Loss on sales of non-current assets	–	18,540
Loss on retirement of non-current assets	11,207	52,724
Loss on tax purpose reduction entry of non-current assets	–	237,039
Provision of allowance for doubtful accounts	58,703	–
Restructuring loss	–	36,470
Loss on disaster	20,887	26,234
Total extraordinary losses	90,798	371,008
Profit before income taxes	1,138,528	918,746
Income taxes - current	412,459	422,050
Income taxes - deferred	(51,774)	(98,636)
Total income taxes	360,684	323,414
Profit	777,844	595,332
Loss attributable to non-controlling interests	(9,299)	(6,721)
Profit attributable to owners of parent	787,143	602,053

Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Profit	777,844	595,332
Other comprehensive income		
Valuation difference on available-for-sale securities	(10,376)	48,224
Foreign currency translation adjustment	(6,199)	(272)
Total other comprehensive income	(16,576)	47,952
Comprehensive income	761,267	643,284
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	770,566	650,006
Comprehensive income attributable to non-controlling interests	(9,299)	(6,721)

(3) Consolidated Statements of Changes in Net Assets
For the fiscal year ended June 30, 2019

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,493,246	1,941,788	7,408,158	(59)	10,843,133
Changes during period					
Issuance of new shares	10,564	10,564			21,128
Issuance of new shares - exercise of share acquisition rights	21,019	21,019			42,039
Dividends of surplus			(254,029)		(254,029)
Profit attributable to owners of parent			787,143		787,143
Purchase of treasury shares				(273,291)	(273,291)
Net changes in items other than shareholders' equity					
Total changes during period	31,584	31,584	533,113	(273,291)	322,990
Balance at end of period	1,524,830	1,973,372	7,941,272	(273,350)	11,166,124

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	47,612	8,633	(10,347)	45,898	331,425	47,796	11,268,254
Changes during period							
Issuance of new shares							21,128
Issuance of new shares - exercise of share acquisition rights							42,039
Dividends of surplus							(254,029)
Profit attributable to owners of parent							787,143
Purchase of treasury shares							(273,291)
Net changes in items other than shareholders' equity	(10,376)	–	(6,199)	(16,576)	(3,300)	(9,299)	(29,176)
Total changes during period	(10,376)	–	(6,199)	(16,576)	(3,300)	(9,299)	293,814
Balance at end of period	37,235	8,633	(16,547)	29,322	328,125	38,496	11,562,068

For the fiscal year ended June 30, 2020

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,524,830	1,973,372	7,941,272	(273,350)	11,166,124
Changes during period					
Dividends of surplus			(234,209)		(234,209)
Profit attributable to owners of parent			602,053		602,053
Disposal of treasury shares		(8,689)		55,497	46,807
Purchase of shares of consolidated subsidiaries		(3,226)			(3,226)
Net changes in items other than shareholders' equity					
Total changes during period	–	(11,915)	367,844	55,497	411,426
Balance at end of period	1,524,830	1,961,456	8,309,117	(217,853)	11,577,550

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	37,235	8,633	(16,547)	29,322	328,125	38,496	11,562,068
Changes during period							
Dividends of surplus							(234,209)
Profit attributable to owners of parent							602,053
Disposal of treasury shares							46,807
Purchase of shares of consolidated subsidiaries							(3,226)
Net changes in items other than shareholders' equity	48,224	–	(272)	47,952	(2,060)	(6,721)	39,169
Total changes during period	48,224	–	(272)	47,952	(2,060)	(6,721)	450,596
Balance at end of period	85,460	8,633	(16,819)	77,274	326,064	31,775	12,012,664

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Cash flows from operating activities		
Profit before income taxes	1,138,528	918,746
Depreciation	638,474	592,235
Amortization of goodwill	12,915	12,915
Increase (decrease) in allowance for doubtful accounts	68,630	6,606
Increase (decrease) in retirement benefit liability	41,672	46,548
Interest and dividend income	(13,647)	(8,437)
Interest expenses	29,783	19,631
Foreign exchange losses (gains)	12,635	(31)
Share of loss (profit) of entities accounted for using equity method	(246,951)	(123,021)
Loss on sales of non-current assets	–	18,540
Loss on retirement of non-current assets	11,207	52,724
Gain on sales of non-current assets	(22,306)	(12,184)
Loss on tax purpose reduction entry of non-current assets	–	237,039
Decrease (increase) in trade receivables	(261,196)	449,241
Decrease (increase) in inventories	(1,012,763)	1,350,703
Increase (decrease) in trade payables	(207,407)	(63,693)
Increase (decrease) in provision for bonuses	6,015	(3,027)
National subsidies	–	(237,039)
Compensation income	(24,376)	(13,763)
Insurance claim income	(35,702)	(91,856)
Loss on business restructuring	–	36,470
Loss on disaster	20,887	26,234
Other, net	177,688	(250,745)
Subtotal	334,087	2,963,835
Interest and dividends received	73,551	53,176
Interest paid	(32,331)	(15,722)
Income taxes paid	(492,905)	(411,871)
Proceeds from compensation	10,366	2,361
Proceeds from insurance income	35,702	91,856
Payments for business restructuring	–	(36,470)
Payments associated with disaster loss	(16,171)	(14,836)
Net cash provided by (used in) operating activities	(87,701)	2,632,327
Cash flows from investing activities		
Payments into time deposits	(31,200)	–
Proceeds from withdrawal of time deposits	1,200	–
Purchase of property, plant and equipment	(1,220,524)	(1,249,537)
Proceeds from sales of property, plant and equipment	30,312	30,245
Purchase of intangible assets	(18,959)	(1,605)
Purchase of investment securities	(2,219)	–
Proceeds from sales of investment securities	39	–
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	66,265	–
Proceeds from national subsidies	–	237,039
Payments for investments in capital	(942,000)	–
Proceeds from divestments	1,520,000	–
Other, net	(4,482)	(17,361)
Net cash provided by (used in) investing activities	(601,567)	(1,001,219)

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(588,000)	1,660,000
Proceeds from long-term borrowings	332,780	4,995,302
Repayments of long-term borrowings	(571,056)	(485,886)
Repayments of finance lease obligations	(88,478)	(58,389)
Proceeds from issuance of shares	1,741	–
Purchase of treasury shares	(273,291)	–
Proceeds from disposal of treasury shares resulting from exercise of share acquisition rights	–	23,789
Dividends paid	(254,029)	(234,209)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(3,226)
Net cash provided by (used in) financing activities	(1,440,334)	5,897,381
Effect of exchange rate change on cash and cash equivalents	(12,815)	(134)
Net increase (decrease) in cash and cash equivalents	(2,142,418)	7,528,354
Cash and cash equivalents at beginning of period	4,856,555	2,714,137
Cash and cash equivalents at end of period	2,714,137	10,242,492

(5) Notes to the Consolidated Financial Statements

(Notes on Going Concern Assumption)

There is no relevant information.

(Changes in Accounting Policies that are Difficult to Distinguish from Changes in Accounting Estimates)

(Change in the depreciation method for property, plant and equipment)

Previously, the Group generally adopted the declining-balance method for depreciating property, plant and equipment (excluding lease assets). (The straight-line method was used for depreciating buildings, excluding facilities attached to buildings, acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.) However, starting from the three months ended September 30, 2019, the Group has changed its depreciation method to the straight-line method.

Upon review of the utilization of property, plant and equipment, motivated by new capital investment, it has been decided that using the straight-line method to distribute costs evenly across the useful life of assets more appropriately reflects actual status of property, plant and equipment utilization.

As a result of this change, compared with the figures under the previous depreciation method, depreciation for the fiscal year under review decreased by ¥198,085 thousand, while operating profit, ordinary profit, and profit before income taxes each increased by ¥198,085 thousand.

(Additional Information)

(Accounting for the adoption of the consolidated taxation system)

The Company and some of its domestic consolidated subsidiaries applied for approval of the consolidated taxation system during the fiscal year under review, and it was decided that the consolidated taxation system will be adopted from the next fiscal year. Accordingly, starting from the fiscal year under review, accounting and presentation are based on the premise of application of the consolidated taxation system, based on the Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1) (Practical Issues Task Force No.5, revised on January 16, 2015) and the Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2) (Practical Issues Task Force No.7, revised on January 16, 2015).

With regards to the transition to the group tax sharing system, which was instituted by the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020), and the items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system, in accordance with Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Practical Issues Task Force No.39, March 31, 2020), the Company has applied the provisions of the pre-amendment tax law to deferred tax assets and liabilities, instead of the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28, February 16, 2018).

(Accounting estimates regarding the spread of COVID-19)

Although there is concern about the impact of changes in the economic situation and business environment caused by the spread of COVID-19, no material impact on our business activities and business performance has been observed so far, and the Group believes that our accounting estimates will not be affected. However, a revision of our judgment due to changes in the situation in the future may result in a material impact on the consolidated financial statements for the next fiscal year and beyond.

(Consolidated Statements of Income)

Restructuring loss recorded for the fiscal year under review is due to the restructuring of the plastic recycling business operated by the Company’s consolidated subsidiaries ECONECOL Inc. and PLA 2 PLA Inc.

(Segment Information)
(Segment information)

1. Description of reportable segments

(1) Method of determining segments

Reportable segments of the Group are determined as segments whose separate financial information is accessible from among the constituent units of the Group and are regularly considered by the Board of Directors to determine the allocation of management resources and to evaluate achievements.

The Group's businesses include the Resource Circulation Business, Global Resource Circulation Business, Used-cars-related Business, Environment Management Consulting Business, Welfare Service Business for Persons with Disabilities, and others. Each business unit formulates its own comprehensive strategies and develops its business activities.

Therefore, the Group consists of segments based on products and services and has three reportable segments: Resource Circulation Business, Global Resource Circulation Business, and Used-cars-related Business.

(2) Type of products and services belonging to each reportable segment

The Resource Circulation Business mainly handles metal scrap and industrial waste (including some domestic waste; hereinafter referred to as "waste") that are discharged from factories and demolished properties, etc. The Company collects and transports these waste materials to intermediate processing factories, where it cuts/fuses, manually dismantles, shreds /sorts, compresses/molds the waste, and produces ferrous scrap, nonferrous metals (copper, aluminum, stainless steel, etc.), plastic, and rubber, which are then sold both domestically and overseas, including at bases for the Global Resource Circulation Business. It also produces and sells recycled plastics, and recycles lithium ion rechargeable batteries, etc.

The Global Resource Circulation Business collects recycled resources produced by the Group, as well as recycled resources purchased from domestic industry peers at our collection bases throughout Japan, which are then sold both domestically and overseas. It also imports products from overseas and engages in trilateral trade of recycled resources, and sells wood biomass fuel.

The Used-cars-related Business has bases in Japan and overseas (UAE, Chile, and Uganda). It purchases used Japanese cars and heavy machinery, as well as used automobile parts, such as engines, that are generated domestically and internationally, and conducts exports abroad as well as trilateral trade. In addition, it also provides logistics services for importers and exporters.

2. Method of measurement for the amounts of net sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting method used for reporting business segments is generally the same as stated in "Important Matters That Form the Basis for Preparing Consolidated Financial Statements." Reporting segment profit figures are based on ordinary profit. Inter-segment revenues and transfers are mainly based on market prices.

3. Information on net sales, profit (loss), assets, liabilities and other items by reportable segment

For the fiscal year ended June 30, 2019

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Resource Circulation	Global Resource Circulation	Used-cars-related	Total				
Net sales								
Net sales to outside customers	8,196,965	21,609,069	6,191,881	35,997,917	338,536	36,336,453	–	36,336,453
Inter-segment sales or transfers	4,515,566	261,142	3,366	4,780,076	44,276	4,824,352	(4,824,352)	–
Total	12,712,532	21,870,212	6,195,248	40,777,993	382,813	41,160,806	(4,824,352)	36,336,453
Segment profit	833,589	448,643	18,889	1,301,122	38,462	1,339,585	(197,677)	1,141,907
Segment assets	10,219,373	4,275,856	1,544,689	16,039,919	191,219	16,231,138	3,528,762	19,759,900
Other items								
Depreciation	538,745	29,885	26,609	595,239	16,066	611,306	27,168	638,474
Amortization of goodwill	12,915	–	–	12,915	–	12,915	–	12,915
Interest income	12	–	3,346	3,358	3	3,362	1,023	4,386
Interest expenses	6,306	–	495	6,802	14,192	20,994	8,789	29,783
Share of profit of entities accounted for using equity method	246,951	–	–	246,951	–	246,951	–	246,951
Investment in entities accounted for using equity method	1,782,228	–	–	1,782,228	–	1,782,228	–	1,782,228
Increase in property, plant and equipment and intangible assets	1,208,561	106,668	16,609	1,331,839	14,448	1,346,287	24,893	1,371,181

(Notes) 1. The “Others” business segment, which is not included in the reportable segments, includes the Environment Management Consulting Business, the Welfare Service Business for Persons with Disabilities, and E3 Co., Ltd., which was excluded from consolidation in December 2018.

2. Figures are adjusted as follows:

(1) The adjustment for segment profit of negative ¥197,677 thousand is corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general and administrative expenses that are not attributed to each reportable segment.

(2) The adjustment for segment assets of ¥3,528,762 thousand mainly includes corporate assets not allocated to each reportable segment.

(3) The adjustments for depreciation of ¥27,168 thousand, interest income of ¥1,023 thousand, interest expenses of ¥8,789 thousand, as well as increase in property, plant and equipment and intangible assets of ¥24,893 thousand are associated with company assets not allocated to each reportable segment.

3. Segment profit is adjusted with ordinary profit in the consolidated statements of income.

For the fiscal year ended June 30, 2020

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Resource Circulation	Global Resource Circulation	Used-cars-related	Total				
Net sales								
Net sales to outside customers	7,966,100	19,977,316	5,678,500	33,621,917	257,417	33,879,334	–	33,879,334
Inter-segment sales or transfers	2,820,039	131,259	5,024	2,956,323	37,897	2,994,220	(2,994,220)	–
Total	10,786,139	20,108,576	5,683,525	36,578,240	295,314	36,873,555	(2,994,220)	33,879,334
Segment profit	420,540	600,316	38,550	1,059,407	30,824	1,090,232	(155,320)	934,911
Segment assets	10,466,662	2,860,063	1,599,871	14,926,596	195,302	15,121,898	10,791,590	25,913,489
Other items								
Depreciation	510,216	35,140	19,574	564,930	3,816	568,746	23,488	592,235
Amortization of goodwill	12,915	–	–	12,915	–	12,915	–	12,915
Interest income	11	–	3,615	3,626	1	3,627	953	4,581
Interest expenses	8,913	–	582	9,495	374	9,870	9,761	19,631
Share of profit of entities accounted for using equity method	123,021	–	–	123,021	–	123,021	–	123,021
Investment in entities accounted for using equity method	1,860,486	–	–	1,860,486	–	1,860,486	–	1,860,486
Increase in property, plant and equipment and intangible assets	1,422,769	84,014	17,376	1,524,160	14,178	1,538,339	29,651	1,567,990

(Notes) 1. The "Others" business segment, which is not included in the reportable segments, includes the Environment Management Consulting Business and the Welfare Service Business for Persons with Disabilities.

2. Figures are adjusted as follows:
   (1) The adjustment for segment profit of negative ¥155,320 thousand is corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general and administrative expenses that are not attributed to each reportable segment.
   (2) The adjustment for segment assets of ¥10,791,590 thousand mainly includes corporate assets not allocated to each reportable segment.
   (3) The adjustments for depreciation of ¥23,488 thousand, interest income of ¥953 thousand, interest expenses of ¥9,761 thousand, as well as increase in property, plant and equipment and intangible assets of ¥29,651 thousand are associated with company assets not allocated to each reportable segment.

3. Segment profit is adjusted with ordinary profit in the consolidated statements of income.

4. Items related to changes in the reportable segments

As described in Changes in Accounting Policies that are Difficult to Distinguish from Changes in Accounting Estimates, previously, the Company and its consolidated subsidiaries generally used the declining balance method for depreciating certain property, plant and equipment. However, upon review of the utilization of property, plant and equipment, motivated by new capital investment, it has been decided that using the straight line method to distribute costs across the useful life of assets more appropriately reflects actual status of property, plant and equipment utilization. Accordingly, the Company and its subsidiaries has changed the depreciation method to the straight line method, starting from the three months ended September 30, 2019.

As a result of this change, segment profit for the Resource Circulation Business, Global Resource Circulation Business, Used-cars-related Business, and Others for the fiscal year under review, increased by ¥179,164 thousand, ¥6,441 thousand, ¥8,883 thousand, and ¥3,596 thousand, respectively, compared with the figures under the previous depreciation method.

(Per Share Information)

	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Net assets per share	¥764.82	¥791.67
Basic earnings per share	¥52.96	¥41.03
Diluted earnings per share	¥50.57	¥39.25

(Notes) 1. The basis for calculating basic earnings per share and diluted earnings per share is as follows.

Item	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Basic earnings per share		
Profit attributable to owners of parent (Thousand yen)	787,143	602,053
Amount not attributable to common shareholders (Thousand yen)	–	–
Profit attributable to owners of parent relating to common shares (Thousand yen)	787,143	602,053
Average number of shares of common shares outstanding during each fiscal year (Shares)	14,863,826	14,673,332
Diluted earnings per share		
Adjustment for profit attributable to owners of parent (Thousand yen)	–	–
Increase in number of shares of common shares (Shares)	702,883	664,081
(Share acquisition rights included in the above (Shares))	(702,883)	(664,081)
Overview of dilutive shares not included in calculation of diluted earnings per share due to lack of dilutive effect	–	–

2. The basis for calculating net assets per share is as follows.

Item	For the fiscal year ended June 30, 2019	For the fiscal year ended June 30, 2020
Total amount of net assets (Thousand yen)	11,562,068	12,012,664
Amount deducted from total amount of net assets (Thousand yen)	366,622	357,839
(Share acquisition rights included in the above (Shares))	(328,125)	(326,064)
(Non-controlling interests included in the above (Shares))	(38,496)	(31,775)
Net assets at end of the period relating to common shares (Thousand yen)	11,195,446	11,654,824
Number of common shares at end of the period used to calculate net assets per share (Shares)	14,638,068	14,721,901

(Significant Subsequent Events)

Transactions under common control, etc.

(Absorption-type demerger between subsidiaries)

1. Outline of transaction

(1) Name and description of applicable business

Business related to ECONECOL Inc.'s general export and import of recycled resources

(2) Date of business combination

July 1, 2020

(3) Legal form of business combination

Absorption-type demerger with ECONECOL Inc. as the divesting entity and NEWSCON Inc. as the successor entity

(4) Name of combined company

No change

(5) Other matters concerning outline of transaction

With the succession of ECONECOL Inc.'s Global Resource Circulation Business by NEWSCON Inc., the transaction is aimed at building management structures specific to each business, enabling swift and accurate decision-making, and developing and strengthening the management foundation, in order to further accelerate the Group's overseas strategy.

2. Outline of accounting applied

The transaction will be accounted for as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."